



central midlands audit partnership

# South Derbyshire DC – Internal Audit Annual Report 2021-22

Audit Sub-Committee: 22<sup>nd</sup> June 2022



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## Our Vision

To bring about improvements in the control, governance and risk management arrangements of our Partners by providing cost effective, high quality internal audit services.

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*Providing Excellent Audit Services in the Public Sector*

## Introduction

### Why an Audit Opinion is required

The Public Sector Internal Audit Standards (PSIAS) states:

#### **Public sector requirement**

The chief audit executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.

The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

The annual report must also include a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.

Extracted from Public Sector Internal Audit Standards Updated March 2017 - 2450 Overall Opinions

In this instance, the Chief Audit Executive is Adrian Manifold, Audit Manager.

With regard to overall opinions, CIPFA's Local Government Application Note for the United Kingdom Public Sector Internal Audit Standards 2019 Edition (issued February 2019) also states:

*"The Public Sector Requirement in PSIAS 2450 requires that the Chief Audit Executive must provide an annual report to the board timed to support the annual governance statement. This must include:*

- *an annual Internal audit opinion on the overall adequacy and effectiveness of the organisation's governance, risk and control framework – i.e. the control environment*
- *a summary of the audit work from which the opinion is derived (including reliance placed on work by other assurance providers)*
- *a statement on conformance with the PSIAS and the results of the Quality Assurance and Improvement Programme.*

*In local government, the annual opinion should be guided by the CIPFA Framework Delivering Good Governance in Local Government.*

*The annual report should also include:*

- *disclosure of any qualifications to that opinion, together with the reasons for the qualification*
- *disclosure of any impairments ('in fact or appearance') or restriction in scope*
- *a comparison of the work actually undertaken with the work that was planned and a summary of the performance of the Internal audit function against its performance measures and targets*
- *any issues the Chief Audit Executive judges particularly relevant to the preparation of the annual governance statement*
- *progress against any improvement plans resulting from QAIP external assessment.*

*In the context of the PSIAS, 'opinion' means that Internal audit will have done sufficient, evidenced work to form a supportable conclusion about the activity that it has examined. Internal audit will word its opinion appropriately if it cannot give reasonable assurance (e.g. because of limitations to the scope of, or adverse findings arising from, its work)."*

## How an Audit Opinion is Formed

Internal Audit's risk-based plan must take into account the requirement to produce an annual internal audit opinion. Accordingly, the Audit Plan must incorporate sufficient work to enable the Audit Manager to give an opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. Internal Audit must therefore have sufficient resources to deliver the Audit Plan.



## Possible Overall Opinions

The Audit Manager's opinion relative to the organisation as a whole could fall into one of the following 3 categories:

- **Inadequate System of Governance, Risk, Internal Control** – Findings indicate significant weaknesses and the need for urgent remedial action. Where corrective action has not yet started, the current remedial action is not, at the time of the audit, sufficient or sufficiently progressing to address the severity of the control weaknesses identified.
- **Adequate System of Governance, Risk, Internal Control Subject to Reservations** – A number of findings, some of which are significant, have been raised. Where action is in progress to address these findings and other issues known to management, these actions will be at too early a stage to allow a satisfactory audit opinion to be given.
- **Satisfactory System of Governance, Risk, Internal Control** - Findings indicate that on the whole, arrangements are satisfactory, although some enhancements may have been recommended.

## Quality Assurance and Improvement Programme

A quality assurance and improvement programme is designed to enable an evaluation of the Internal Audit activity's conformance with the Definition of Internal Auditing and the Standards and an evaluation of whether internal auditors apply the Code of Ethics. The programme also assesses the efficiency and effectiveness of the Internal Audit activity and identifies opportunities for improvement.

Public Sector Internal Audit Standards state:

### Public sector requirement

The results of the quality and assurance programme and progress against any improvement plans must be reported in the annual report.

Extracted from Public Sector Internal Audit Standards Updated March 2017 - 1320 Reporting on the Quality Assurance and Improvement Programme

Public Sector Internal Audit Standard 1312 also requires that:

*"External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation."*

Assessments are based on the following 3 ratings:

- **Generally Conforms** - means that an internal audit activity has a charter, policies, and processes that are judged to be in conformance with the Standards.
- **Partially Conforms** - means deficiencies in practice are noted that are judged to deviate from the Standards, but these deficiencies did not preclude the internal audit activity from performing its responsibilities in an acceptable manner.
- **Does Not Conform** - means deficiencies in practice are judged to be so significant as to seriously impair or preclude the internal audit activity from performing adequately in all or in significant areas of its responsibilities.

Our last external quality assessment on our overall conformance with the Standards was undertaken in 2017 and it was determined that we generally conformed with each standard. Accordingly, another external quality assessment is due in 2022 and CMAP management is currently in the process of procuring a firm to undertake the review.

In November 2021, the CMAP management team undertook a self-assessment against the Standards and produced a revised QAIP – Improvement Plan which is appended to the rear of this report. Following consultation with all members of the Audit Team, this QAIP was reported to the Partnership Board on 2<sup>nd</sup> March 2022 for approval. We are committed to undertaking another self-assessment against the Standards in preparation for the forthcoming External Quality Assessment.

We have determined that CMAP **Generally Conforms** ' to the Standards. 'Generally Conforms' means the evaluator has concluded that the relevant structures, policies, and procedures of the activity, as well as the processes by which they are applied,

comply with the requirements of the individual *Standard* or element of the Code of Ethics in all material respects. For the sections and major categories, this means that there is general conformance to a majority of the individual *Standards* or elements of the Code of Ethics, and at least partial conformance to the others, within the section/category. There may be significant opportunities for improvement, but these must not represent situations where the activity has not implemented the *Standards* or the Code of Ethics, has not applied them effectively, or has not achieved their stated objectives. As indicated above, general conformance does not require complete/perfect conformance, the ideal situation, successful practice, etc.

## Audit Opinion 2021-22

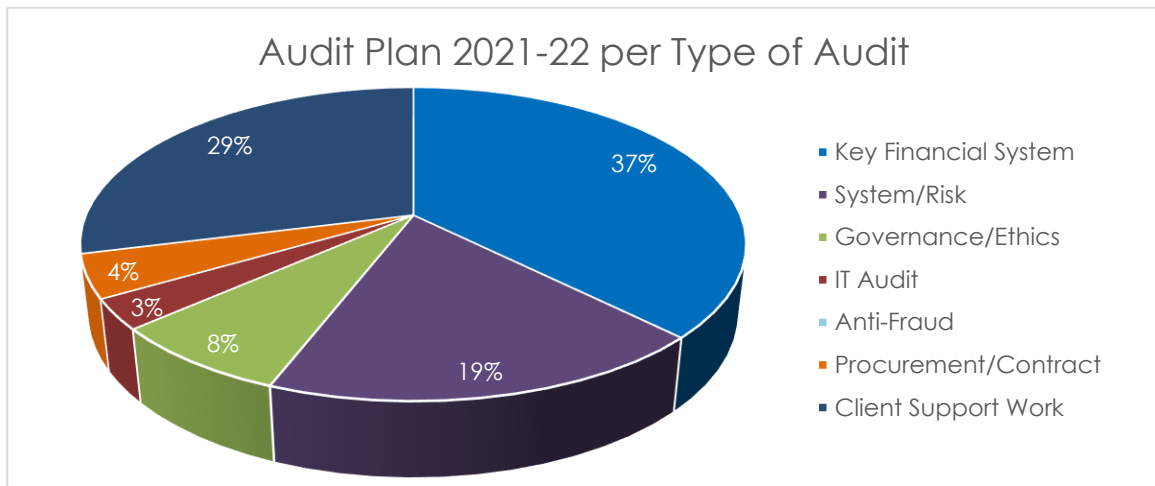
Based on the work undertaken during the year, I have reached the overall opinion that there is a **Satisfactory System of Governance, Risk, Internal Control** - Findings indicate that on the whole, arrangements are satisfactory, although some enhancements may have been recommended.

In forming this opinion, I am satisfied that no conflicts of interest have occurred which would have any bearing on my independence or objectivity. Also, my organisational independence and objectivity has not been subject to any impairment in fact or appearance; nor has the scope of our work been restricted in any way.

I have arrived at this opinion having regard to the following:

- The level of coverage provided by Internal Audit was considered adequate.
- Work has been planned and performed so as to obtain sufficient information and explanation considered necessary in order to provide evidence to give reasonable assurance that the organisation's control environment is operating effectively.
- The changing risk environment within the Council has been taken into account during the 2021-22 financial year.
- Our insight gained from our interactions with Senior Management and the Audit Sub-Committee.
- The only issue that we considered had adverse implications for the Authority's Annual Governance Statement related to a significant issue regarding the approval of the Council's budget. This matter has since been addressed to our satisfaction.
- It was brought to our attention that a couple of significant budget overspends have occurred during 2021-22 in respect of Housing Repairs and Land Charges. Internal Audit will be monitoring the Council's actions to address the issues that have led to these overspends.
- The 2021-22 Internal audit plan, approved by the Audit Sub-Committee, 24<sup>th</sup> March 2021, was informed by internal audit's own assessment of risk and materiality in addition to consultation with Senior Management to ensure it aligned to the organisation's key risks and objectives. Changes to this Audit Plan have been reported to the Audit Sub-Committee throughout the year.
- The following tables summarise the 2021-22 Audit Plan assignments and their outcomes as well as those assignments from the 2020-21 Audit Plan which were still ongoing in 2021-22.

## South Derbyshire DC – Internal Audit Annual Report 2021-22



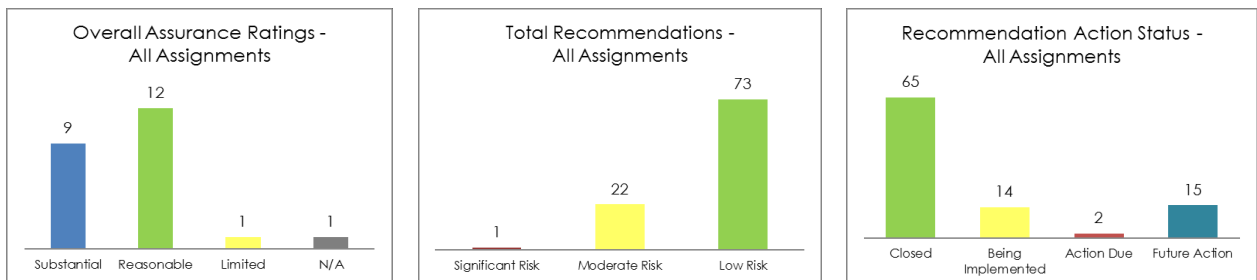
2021-22 Jobs	Status	% Complete	Assurance Rating
Data Protection & Freedom of Information 21-22	Final Report	100%	Reasonable
Procurement 2021-22	Final Report	100%	Reasonable
Income Streams 2021-22	Fieldwork Complete	90%	
Financial Management Standards 2021-22	Final Report	100%	Reasonable
Insurance 2021-22	Final Report	100%	Substantial
Taxation 2021-22	Final Report	100%	Substantial
Payroll Probity 2021-22	In Progress	50%	
Creditors 2021-22	Final Report	100%	Substantial
Asset Management 2021-22	Final Report	100%	Reasonable
Revenues Systems 2021-22	Final Report	100%	Substantial
Cashiering 2021-22	Final Report	100%	Substantial
Housing System IT Upgrades	In Progress	55%	
Project Management 2021-22	Final Report	100%	Reasonable
People Management 2021-22	In Progress	70%	
Data Quality & Performance Management 21-22	Final Report	100%	Substantial
Climate Change 2021-22	Final Report	100%	Substantial
Affordable Housing 2021-22	Final Report	100%	N/A
Homelessness 2021-22	In Progress	70%	
Rent Accounting 2021-22	Final Report	100%	Reasonable
Corporate Governance 2021-22	Final Report	100%	Reasonable

2020-21 Jobs B/fwd	Status	% Complete	Assurance Rating
Business Continuity & Emergency Planning	Final Report	100%	Reasonable
Procurement 2020-21	Final Report	100%	Reasonable
Housing Benefit & Council Tax Support	Final Report	100%	Substantial
Microsoft 365 Platform	Final Report	100%	Reasonable
Financial Reporting - Impact of Covid19	Final Report	100%	Substantial
Leisure Centres 2020-21	Final Report	100%	Reasonable
Housing Repairs 2020-21	Final Report	100%	Limited
Waste Contract - Pre-Procurement Stage	Final Report	100%	Reasonable
Electoral Services 2020-21	In Progress	70%	

- Of the 23 completed assignments, 21 attracted either a 'Substantial' or 'Reasonable' assurance rating: 1 has attracted a 'Limited' assurance rating and 1 assignment was given a 'N/A' assurance rating. From the completed



assignments a total of 96 recommendations were made; 73 of these were considered to present a low risk; 22 were considered to present a moderate risk; 1 was a significant risk recommendation and no critical risk recommendations were made.



- Of the 12 **Key Financial System** audits undertaken in 2021-22, 10 were completed and attracted either a Substantial or Reasonable overall assurance rating. The 2 remaining were not yet sufficiently complete to determine an overall assurance rating. The finalised audit assignments identified 32 recommendations, 27 of which were classified as low risk and 4 were a moderate risk and 1 a significant risk.

The significant risk recommendation came from the Financial Management Standards audit. We concluded that:

- *"The annual General Fund, Housing Revenue Account and Capital budgets were not formally received and approved by Full Council, as required by the Council's Constitution and to meet the requirements of the Local Government Act 2000."*

Management did not accept our finding and responded:

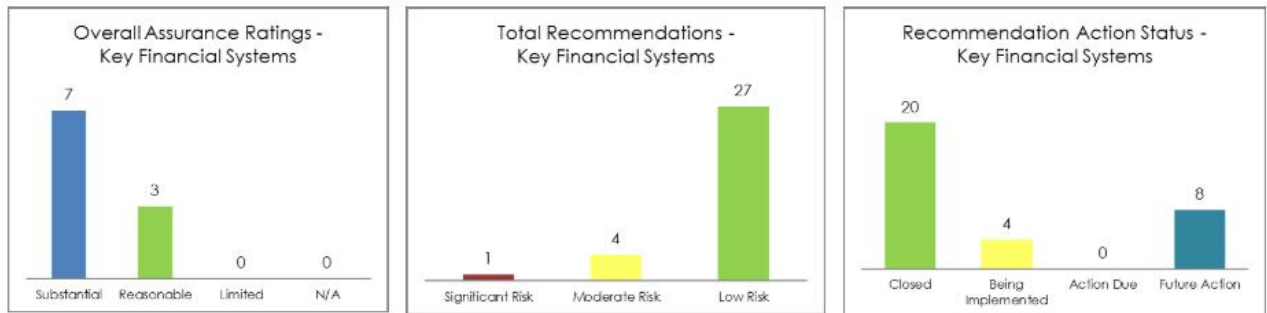
- *"In line with the Council's Constitution and Committee System, the Council does not receive full budget details. Following an open and transparent process through the Committee system, Finance and Management Committee recommend the level of income and expenditure to Full Council as part of Council Tax setting. This is backed up by the report of the Section 151 Officer and the Budget Statement delivered by the Leader. At the Full Council meeting, members have the opportunity to challenge and ask questions regarding the Budget and have prior access to all reports considered by the Policy Committees. Many members would also have the opportunity to scrutinise proposals at these Committees. When the Council Tax is set, this also effectively approves the Budget as recommended by Finance and Management Committee, subject to any changes made at the Full Council meeting."*

That aside, the Section 151 Officer's Budget and Council Tax Setting 2022/23 report to Full Council on 23<sup>rd</sup> February 2022 was enhanced to include greater detail of the General Fund budget and a specific recommendation that the Council's Budget for 2022/23 was approved.

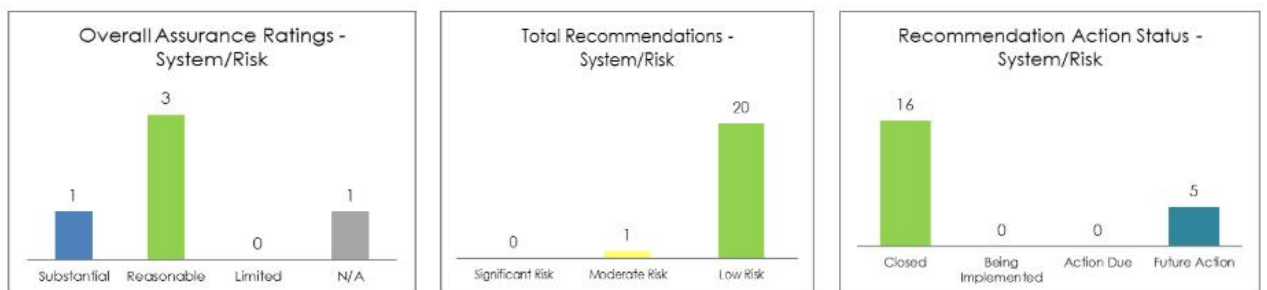
Three of the 4 moderate risks came from the Asset Management audit and 2 have been implemented and the other has a future action date. The remaining moderate risk recommendation came from the Rent Accounting

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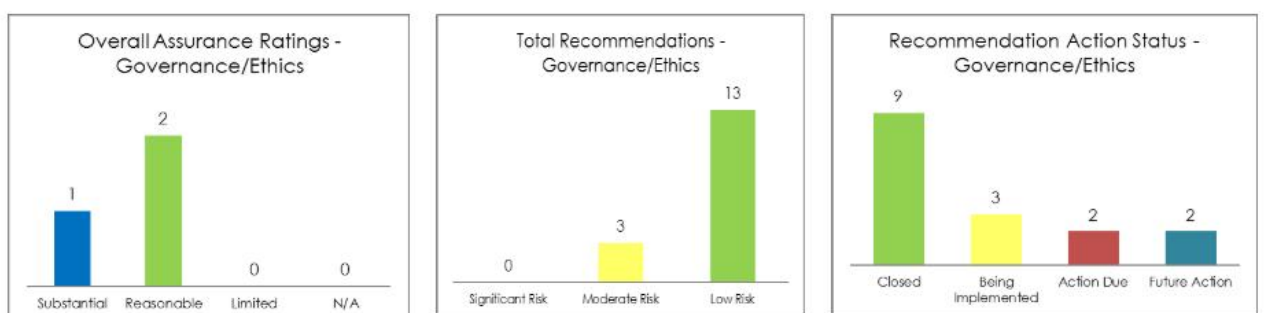
audit and has passed its original action date and management has provided a revised action date in the future.



- Of the 8 **System/Risk** audits undertaken in 2021-22, 5 were finalised; 1 attracted a Substantial assurance rating; 3 a Reasonable assurance rating and the Affordable Housing assignment was a piece of consultation work which did not warrant an assurance rating. From the 5 audits finalised, a total of 20 low risk recommendations were made. One moderate risk recommendation arose from the Leisure Centres audit and this has already been implemented.

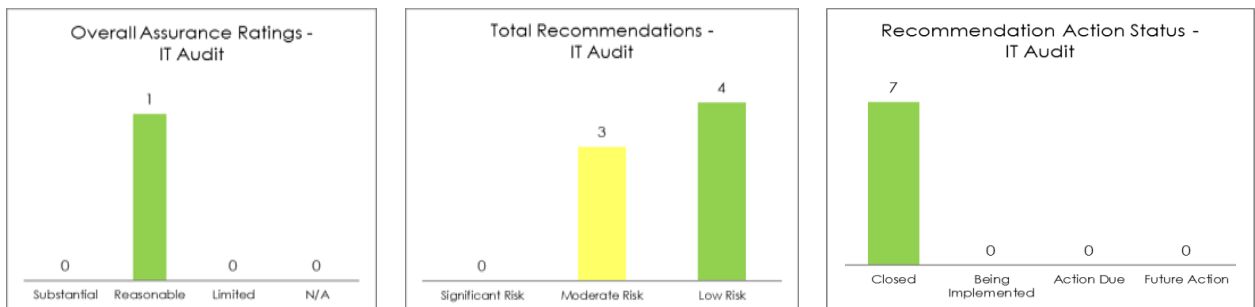


- All 3 **Governance/Ethics** audits undertaken during 2021-22 have been finalised and 2 attracted an overall assurance rating of Reasonable, and 1 a substantial assurance rating. The 3 audits produced 16 recommendations; 3 of which were considered to represent a moderate risk, the rest being a low risk. One moderate risk recommendation from the Corporate Governance audit has now been implemented, whereas another has passed its action date and management has yet to provide any update information. The remaining moderate risk recommendation from the Data Protection & Freedom of Information audit has passed its original action date and management has provided a revised action date which has also passed.

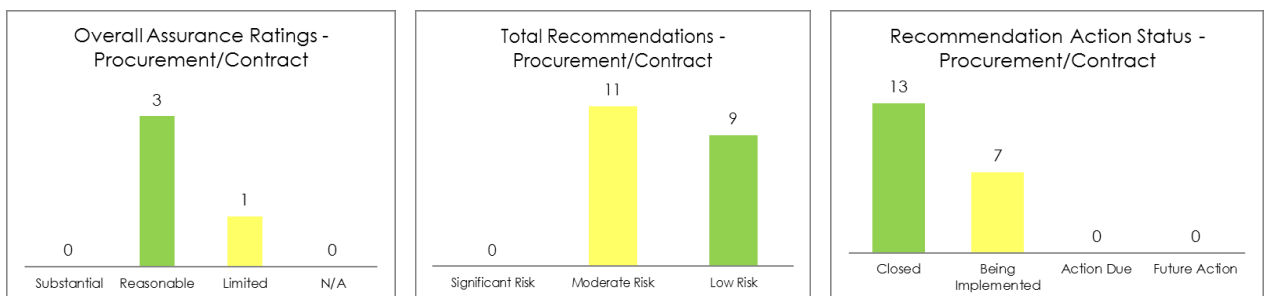


- Of the 2 **IT Audits**, one was completed during 2021-22 and attracted a Reasonable assurance rating. The Microsoft 365 Platform audit raised 7

recommendations; 3 were considered a moderate risk and the remaining 4 were considered to represent a low risk. All 7 recommendations have now been addressed to our satisfaction. The remaining IT audit was not yet sufficiently complete to determine an overall assurance rating.



- All 4 **Procurement/Contract** audits were finalised and 3 attracted overall assurance ratings of Reasonable and the Housing Repairs assignment attracted a Limited assurance rating. The 4 finalised audits resulted in 20 recommendations, 11 of which were considered to present a moderate risk, the remaining 9 a low risk. Of the 11 moderate risk recommendations, 8 have been implemented, the remaining 3 have passed their original action date and Management has provided revised action dates in the future.



This opinion is provided with the following caveats:

- The opinion does not imply that Internal Audit has reviewed all risks, controls and governance arrangements relating to the Council. The opinion is substantially derived from the conduct of risk-based audit work and as such, it is only one component that is taken into account when producing the Council's Annual Governance Statement.
- No system of control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give absolute assurance.
- Full implementation of all agreed actions is essential if the benefits of the control improvements detailed in each individual audit report are to be realised.

## Audit Coverage

### Assurances Provided

The following table seeks to summarise the extent of audit coverage provided to South Derbyshire District Council during 2021-22 and the assurance ratings associated with each audit assignment.

Summary of Audit Plan 2021-22 Results (incl. Jobs B/Fwd)	Type of Review						Totals
	Key Financial System	System/ Risk	Governance /Ethics	IT Audit	Anti- Fraud	Procurement /Contract	
Not Yet Complete	2	3		1			6
Substantial	7	1	1				9
Reasonable	3	3	2	1		3	12
Limited						1	1
No							
N/A		1					1
	<b>12</b>	<b>8</b>	<b>3</b>	<b>2</b>		<b>4</b>	<b>29</b>

### Assurance Ratings Explained

**Substantial** - A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.

**Reasonable** - There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.

**Limited** - Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.

**No** - Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

**N/A** – The type of work undertaken did not allow us to reach a conclusion on the adequacy of the overall level of internal control.

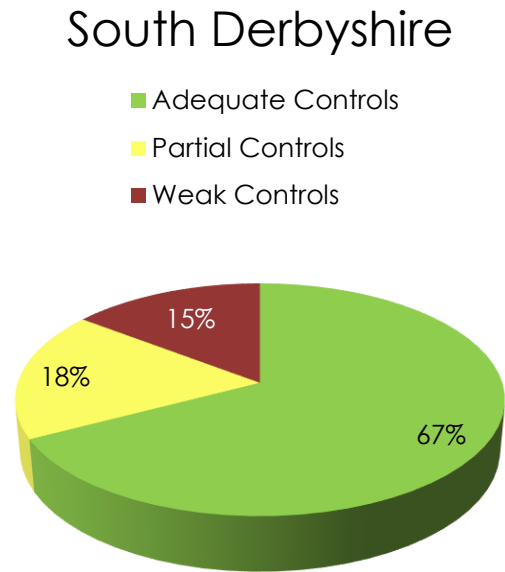
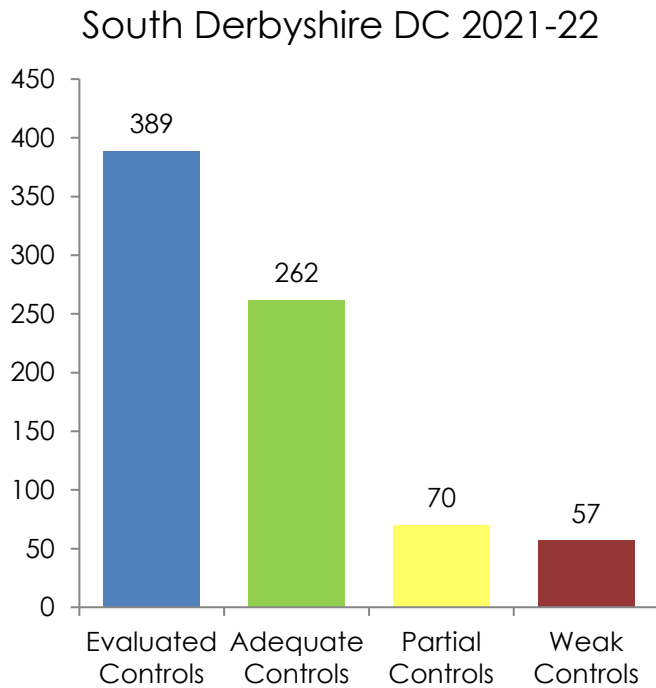
These assurance ratings are determined using our bespoke modelling technique which takes into account the number of control weaknesses identified in relation to those examined, weighted by the significance of the risks.

## Audit Plan Assignments 2021-22

Audit Assignments Completed in Period	Assurance Rating	Recommendations Made				% Recs Closed
		Critical Risk	Significant Risk	Moderate Risk	Low Risk	
Income Streams 2021-22						n/a
Financial Management Standards	Reasonable		1		1	100%
Insurance	Substantial				2	50%
Taxation 2021-22	Substantial					n/a
Payroll Probity 2021-22						n/a
Creditors 2021-22	Substantial				1	100%
Asset Management 2021-22	Reasonable			3	8	73%
Revenues Systems 2021-22	Substantial				3	33%
Cashiering 2021-22	Substantial					n/a
Rent Accounting 2021-22	Reasonable			1	7	38%
Housing Benefit & Council Tax Support 2020-21	Substantial				1	0%
Financial Reporting - Impact of Covid19	Substantial				4	100%
Project Management 2021-22	Reasonable				6	100%
People Management 2021-22						n/a
Climate Change	Substantial				4	50%
Affordable Housing 2021-22	N/A					n/a
Homelessness 2021-22						n/a
Business Continuity & Emergency Planning 2020-21	Reasonable				3	100%
Leisure Centres 2020-21	Reasonable			1	7	63%
Electoral Services 2020-21						n/a
Data Protection & Freedom of Information 2021-22	Reasonable			1	10	73%
Data Quality & Performance Management 21-22	Substantial					n/a
Corporate Governance 2021-22	Reasonable			2	3	20%
Housing System IT Upgrades						n/a
Microsoft 365 Platform	Reasonable			3	4	100%
Procurement 2021-22	Reasonable			1	2	100%
Procurement 2020-21	Reasonable			3		100%
Housing Repairs 2020-21	Limited			4	7	36%
Waste Contract - Pre-Procurement Stage	Reasonable			3		100%
<b>TOTALS</b>			<b>1</b>	<b>22</b>	<b>73</b>	<b>68%</b>

### Internal Controls Examined

For those audits finalised during 2021-22, we established the following information about the controls examined:



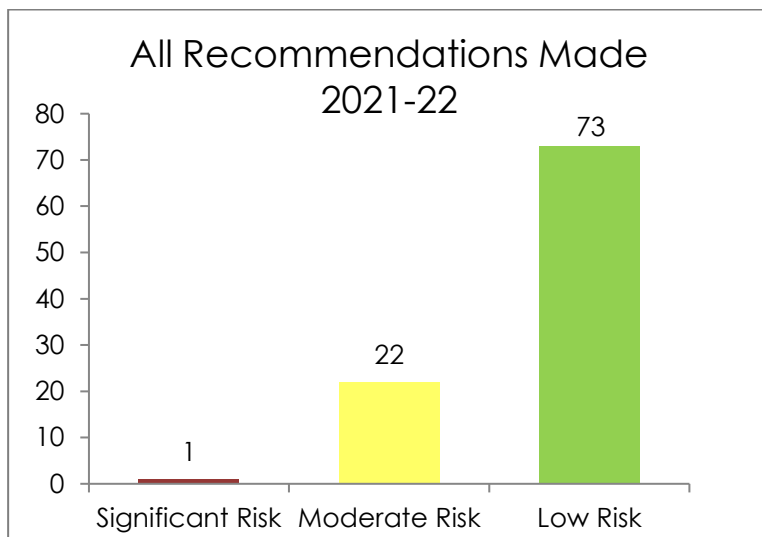
## Recommendations Made

The control weaknesses identified above resulted in 96 recommendations which suggested actions for control improvements. The following table and charts show where the recommendations came from, how the recommendations were risk rated and the current status of all recommendations made relating to 2021-22:

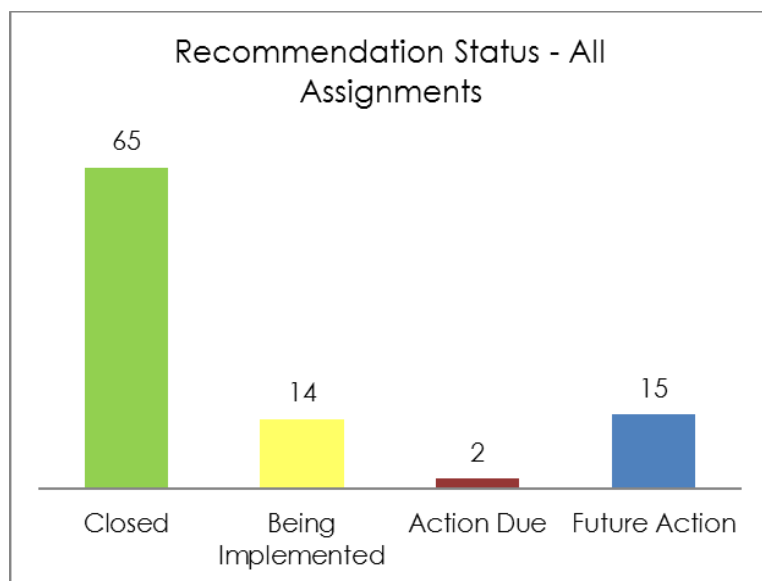
Audit Assignments	Type of Review	Recommendations Status			
		Total Closed	Action Due	Being Implemented	Future Action
Income Streams 2021-22	Key Financial System				
Financial Management Standards	Key Financial System	2			
Insurance	Key Financial System	1			1
Taxation 2021-22	Key Financial System				
Payroll Probity 2021-22	Key Financial System				
Creditors 2021-22	Key Financial System	1			
Asset Management 2021-22	Key Financial System	8		1	2
Revenues Systems 2021-22	Key Financial System	1			2
Cashiering 2021-22	Key Financial System				
Rent Accounting 2021-22	Key Financial System	3		3	2
Housing Benefit & Council Tax Support 2020-21	Key Financial System				1
Financial Reporting - Impact of Covid19	Key Financial System	4			
Project Management 2021-22	System/Risk	6			
People Management 2021-22	System/Risk				
Climate Change	System/Risk	2			2
Affordable Housing 2021-22	System/Risk				
Homelessness 2021-22	System/Risk				
Business Continuity & Emergency Planning 2020-21	System/Risk	3			
Leisure Centres 2020-21	System/Risk	5			3
Electoral Services 2020-21	System/Risk				
Data Protection & Freedom of Information 2021-22	Governance/Ethics	8		3	
Data Quality & Performance Management 21-22	Governance/Ethics				
Corporate Governance 2021-22	Governance/Ethics	1	2		2
Housing System IT Upgrades	IT Audit				
Microsoft 365 Platform	IT Audit	7			
Procurement 2021-22	Procurement/Contract	3			
Procurement 2020-21	Procurement/Contract	3			
Housing Repairs 2020-21	Procurement/Contract	4		7	
Waste Contract - Pre-Procurement Stage	Procurement/Contract	3			
<b>TOTALS</b>		<b>65</b>	<b>2</b>	<b>14</b>	<b>15</b>

## Recommendations Summary

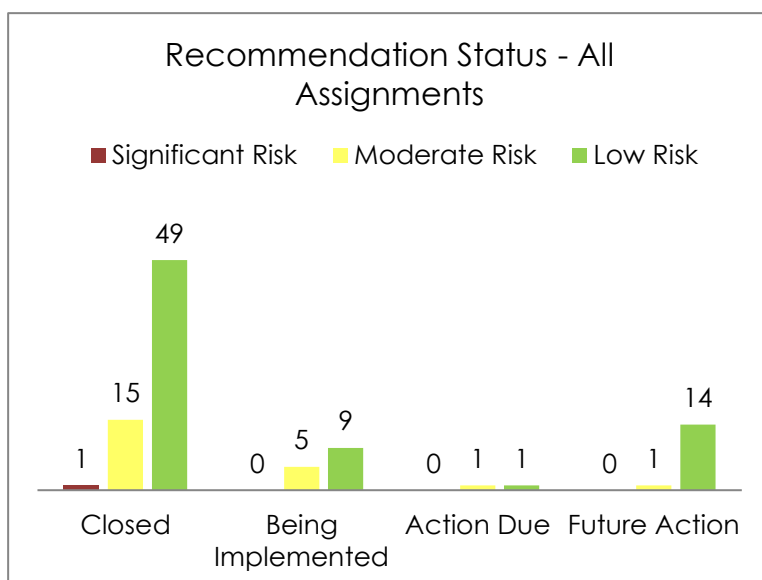
These 96 recommendations have resulted from the 23 audit assignments finalised either during 2021-22 or finalised in the time following the year-end. Approximately 76% of all recommendations made were considered to present a low risk, 23% a moderate risk and 1% a significant risk.



Of the 96 recommendations made, 67% have been closed, 15% have passed their original action date and a revised target has been set, 2% have passed their original action date but we have not yet received information regarding the status of management's action. The remaining 16% have an agreed original action date set in the future.



The 1 significant risk recommendation has now been addressed to our satisfaction. It is pleasing to note that 15 of the moderate risk recommendations raised have been addressed to our satisfaction, as have 49 of the low risk recommendations. We will continue to monitor all recommendations not yet addressed and will bring those moderate risk recommendations that remain outstanding to the attention of the Audit Sub-Committee throughout the coming year.



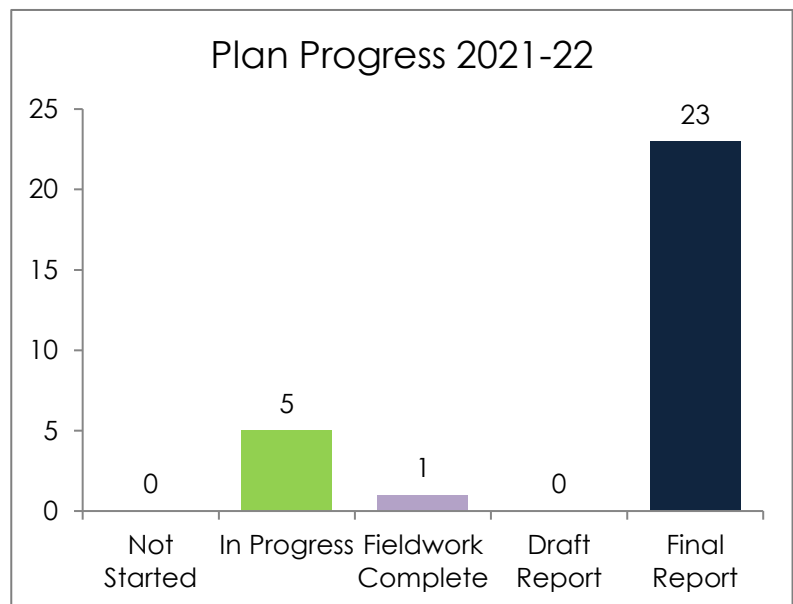


## Performance Measures

Of the 24 customer satisfaction surveys sent, only 50% have been returned. Surveys contain 11 questions regarding the audit service provided and asked managers to score each on a scale of 1-5 (1=Very Poor, 2=Poor, 3=Fair, 4=Good, 5=Excellent). From the 12 customer satisfaction returns received, the overall average score out of 55 was 51.1.



By the end of the 2021-22 we estimate that we had completed 86.2% of the revised Audit Plan against a target of 90%. Our progress with certain audit assignments has been impacted by the Covid-19 situation.



## QAIP – Improvement Plan

### ACTIONS

1. We should continue to heighten our profile by building on the relationship management already established with each partner organisation. i.e. Regular meetings with Senior Management combined with a regular on-site presence. Note under the current circumstances (Covid pandemic) this needs to be through regular contact via virtual meetings.
2. We should map competency levels of staff over the various audit disciplines (e.g. contract, IT, probity, investigations etc.) that we can link to audit engagements to demonstrate that the staff assigned are appropriate. We should continue to promote a culture of continuous improvement which considers the needs of individuals by:
  - staff completing the AMS in respect of any training received,
  - undertaking GPCs in accordance with the hosts requirements and
  - producing a Training & Development Plan.
3. We should ask staff to complete a Personal Development Plan and then produce a Training & Development Plan for the Team.
4. We should aim to increase our knowledge around the use of data analytics and other CAATs and identify the benefits it could bring to the audit processes.
  - To ensure that audit engagements are supported by appropriate tools, we need to develop a strategy for the use of data analytics.
5. To demonstrate stakeholder engagement with the process, we should ensure that the QAIP Action Plan is a standard agenda item on both the CMAP Operational Group and at Audit Section meetings.
6. To demonstrate each work programme has been appropriately approved, we should seek earlier formal sign off of the control evaluation so we can better demonstrate scrutiny and approval of coverage by audit management.
7. CMAP needs to explore potential external assessors that can deliver the appropriate level of validation required and that understand the partnership ethos/approach.
8. We should continue to develop the process for incorporating other assurance information into our overall risk assessment process and our overall opinion and how the other assurance provider information we gather can be used to demonstrate an audit assurance framework for each organisation.
9. We should ensure that our Audit Manual is complete, up-to-date, readily available and used by all audit staff.
10. To support the improvement of the organisation's governance framework, we should undertake consultancy work to facilitate the self-assessment of the effectiveness of the Audit Committee at all partner organisations.
11. We should consider how we could systematically evaluate the potential for the occurrence of fraud at each partner organisation and how each organisation manages fraud risk.
12. To review all CMAP reports to assess compliance with the Web Content Accessibility Guidelines (WCAG).